A Continuous Journey...

The Story of IRS Transformation

What is it all about?

Transformation to a Customer-Centric Enterprise through Organizational Structure, HR Practices and Processes, Business Process Reengineering and Information Technology

Three Components of Organizational Transformation

- Organizational Structure

- HR Practices and Processes

- Business Process Reengineering and new Information Technology

History - *Why IRS Changed*
Key Events in IRS Organizational Transformation

	80's	95	96	97	98	99	00	01
Organization Modernization		Consolidate 63 districts to 33; 7 regions to 4			Organization Modernization begins	First 2 operating divisions stand up	All new organizations stand up 10/1/2000 Service Center realignment begins	
Technology Modernization	Filing Season failure - 1985 First electronic return filed		IRS begins Cyberfile project(direct electronic filing) Cancellation of TSM Program	Cyberfile project cancelled	IRS awards PRIME contract		Tax Admin. Visioning (TAVS) begins development	Blueprint 2000 released TAVS sequencing begins
Budget		Congress funds 5-yr. Compliance initiative @$405 mil per yr. 6300 new hires Budget $7.5 bil. FTE 110,711	IRS loses funding for compliance initiative plus additional cut of $400 mil. Begins downsizing Budget $7.3 bil. FTE 105,341	Budget $7.3 bil. FTE 100,500	ITIA Fund established for FY 98 Budget $7.8 bil plus ITIA .295 total $8.1 bil. FTE 96,961	Budget $8.4 bil. plus ITIA .211 total $8.6 bil. FTE 97,739	Budget = $8.3 bil No ITIA FTE 97,074	Funding for STABLE hiring initiative received Budget 8.77 ITIA .072 Total $8.8 bil. FTE 99,847
Oversight		National Academy of Sciences issues report critical of IRS TSM GAO issues report critical of Treasury oversight of IRS TSM	National Commission on Restructuring IRS begins GAO issues report critical of IRS management of TSM program Treasury creates IRS Modernization Management Board	Senate Finance Committee hearing (I) GAO issues report on Cyberfile National Commission issues report Vice President issues report on IRS customer service Modernization Board broadened to IRSMB	Senate Finance hearing (II) RRA'98 passed: T/P rights, personnel flexibilities, Oversight Board	IRS Oversight Board first meeting		

80's | **95** | **96** | **97** | **98** | **99** | **00** | **01**

Period of intense criticism and decreasing resources

RRA 98

Implement Taxpayer Rights provisions
Decreased resources
Decreased compliance activity

Service and compliance turn around

Increased resources

Why Modernize?

- To provide better service to America's taxpayers

- To implement the sweeping reforms mandated by RRA '98

- To enable employees with new skills and tools

- To create a new organizational structure guided by commercial best practices

How did we go about Modernizing the IRS?

Internal Revenue Service

Mission Statement

Provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all

GUIDING PRINCIPLES

- Understand and solve problems from taxpayer's point of view
- Enable managers to be accountable - *knowledge, responsibility, authority, action*
- Align measures of performance to all organizational levels
- Foster open, honest communication
- Insist on total integrity

GOALS

- Service to Each Taxpayer
- Service to All Taxpayers
- Productivity Through a Quality Work Environment

| Revamped Business Practices | Customer Focused Operating Divisions | Management Roles with Clear Responsibility | Balanced Measurement of Performance | New Technology |

Organization Modernization

What do we have so far?

Implementation Status

- *Completed Activities*
  - New management teams in-place for all units
  - All employees realigned into organization units or notified of "transition" status
  - Budget authorities and delegations of authority are transferred
  - Process and systems changes necessary for day-to-day operations are complete

Implementation Status - *(Continued)*

- *Completed Activities*
  - Realignment of processing, account management and compliance centers and customer contact centers
  - Hiring of personnel for <u>new</u> organization units, primarily pre-filing
  - Improvement initiatives for each new organization unit driven by Strategic Plans and Budget

Implementation Status - *(Continued)*

- *Completed Activities*
  - Service Center/Call Site Realignment and Transition
  - Majority of taxpayers were realigned to their new Submission Centers
  - Specialization of Accounts Management
  - Centralization and specialization of Compliance activities
  - Brookhaven Submission Center will shut down after next filing season

Before GAO Declared Human Capital a Crisis - IRS was already working on it

IRS Human Capital Strategy

A Workforce Second to None...

Our Human Capital Strategy Employs the HR "Life-Cycle" as a Framework for...

Transition

Plan

Sustain

Recruit

Develop

Educate
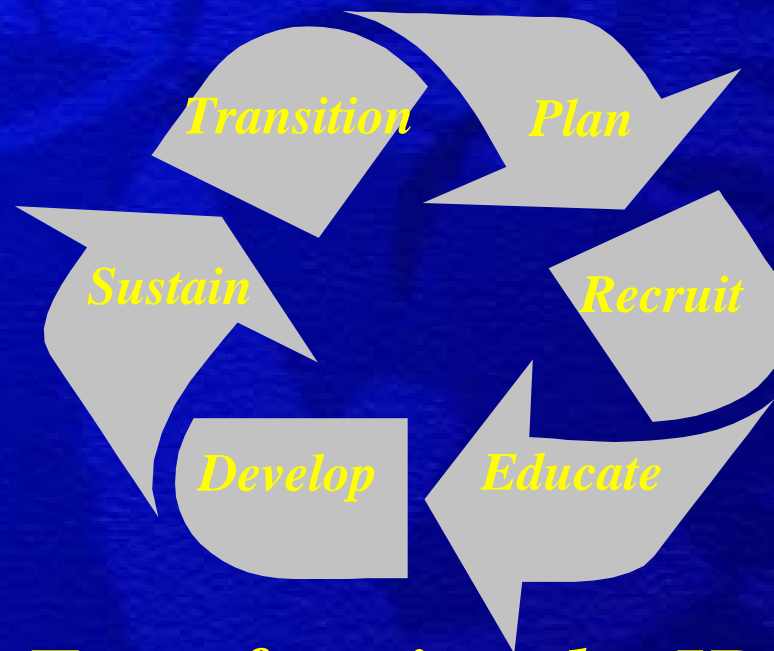
Transforming the IRS...

The next major challenge -

**Business Process Reengineering
and
Information Technology**

The Tax Administration Vision and Strategy (TAVS) work provides the opportunity to dramatically improve and fundamentally change one of the most important functions of government

- Distills existing tax administration processes to their core essence; a clear, integrated view of how the agency should work in the future (including potential performance metrics)

- Tailors services to specific taxpayer segments

- Reduces taxpayer burden and frustration

- Dramatically improves customer service, employee satisfaction, and business results

- Provides IRS employees with the right information at the right time to help the public

- Creates the roadmap to make the implementation of technology successful

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The new vision will deliver dramatically improved customer service, employee experience, and business productivity...

Key Drivers of Improvement	
Access to IRS support, information and tax data through multiple, easy-to-use channels	• Internet - Self Service • Phone • Walk-in • Correspondence (paper, electronic)
Accuracy of information provided by IRS	• General tax law • Account specific • Procedural
Speed of response to taxpayers	• Refund issuance • Customer account inquiries • Tax law questions • Collection problems
Timeliness of IRS initiated actions	• Identify potential issues rapidly • Execute appropriate treatment • Close all aspects of case

… moving the agency forward …

From	To

• Information requests:
  – paper avg.: 23 days
  – e-mail avg.: 4 days
  – telephone level of service: 53% (FY 1999)
	• Information requests correctly routed and fulfilled at the time of request

• Taxpayer can not resolve problems without IRS staff
  – tax law quality 72%
  – account quality 59%
	• Robust "self help" capabilities and third-party relationships help to prevent/correct problems

• Refunds in 5-7 weeks	• Refunds in 2-3 days
• Audits not started for 14-20 months after return is filed	• Tax returns selected for audit within same filing season
• Up to 30% of audits result in "No Change" to the return	• Cut "No Change" determinations by one half
• Account inquires at 40% first time resolution	• Account inquires at 80% resolution
• Collection of outstanding balances: average 2.5 years	• Collection of outstanding balances: average 6 months

The overall TAVS vision is enabled by seven technology intensive capabilities

Seven Enabling Technologies

Customers
- Customers
- Practitioners
- Federal/state agencies
- Other 3rd parties
- IRS employees

1 Communication Channel Management
Routes communication information to appropriate system or process

Captures, logs & forwards information to appropriate business process

2 Knowledge Management
Provides processes, technology & tools used to create, gather, organize, share, & retrieve IRS knowledge

4 Data Analysis & Decision Support
Combines processes & commercially available tools to view data, perform "what if" analyses, & either recommend or initiate action

3 Account Management
Provides a central repository of customer tax administration information and service requests by integrating IRS, taxpayer, third party intermediary & other authorized user data

5 Case Management
Provides automatic routing, tracking, managing, & controlling of case related work items such as compliance cases, user queries, case analysis or feedback items

6 Security/Privacy
Includes technologies, tools, & policies to access tax account & other IRS data that ensure the appropriate level of security, privacy, & authentication is consistent with the level of risk defined by business needs

7 Data Management
Maintains tax administration databases and data warehouses

What's Needed
- Secure e-enabled communications and services
- A common security and privacy infrastructure
- Consistent access to all information in a concise format to resolve taxpayer situations
- Data warehouses combined with analytic tools to provide the basis for TAVS fact-based analysis and data-driven strategies
- Improved information exchange within the IRS, taxpayers, and third parties

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Customer Account Management provides our customers and employees with a comprehensive account view that facilitates one-stop service

Customers

Third Parties

Private and Secure

*Preferred Channel

Internet/Email

Phone

Paper/Fax

Face-to-Face

IRS

Filing

Unified Customer Account Info

Pre-filing — *Compliance*

Benefits
- **Easy and full access to customer data**
- **Quick, accurate, and consistent responses**
- **Tailored services based on customer needs**
- **Proactive guidance**
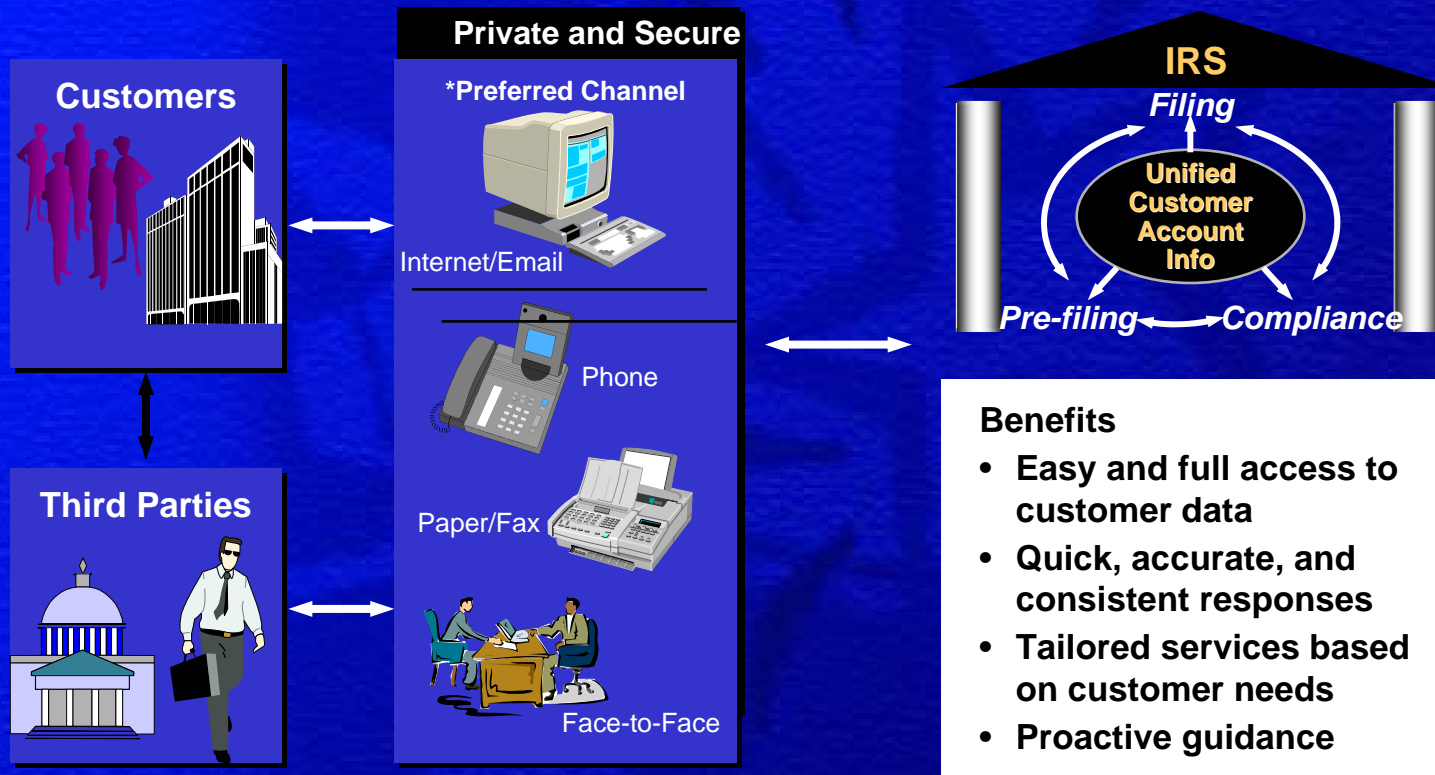
From
- Limited accessibility of online taxpayer information
- Extensive use of paper/manual processing and multiple transfers between IRS employees
- Lack of coordinated communication
- Limited leverage of third-party relationships
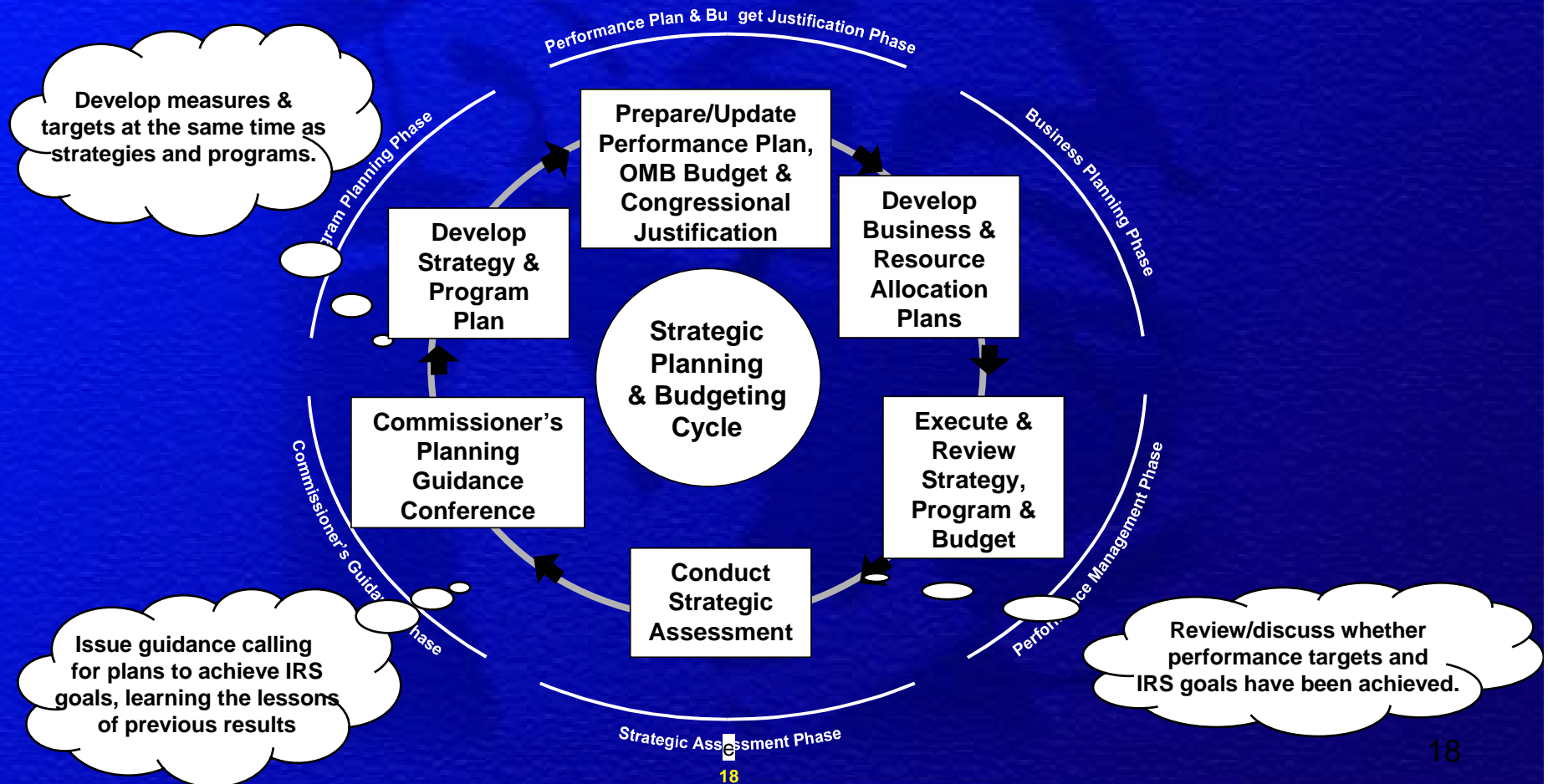- Simple account adjustment processing time in excess of 30 days

To
- Total multi-year account information available to IRS and customer
- Decreased processing times
- Seamless service--each interaction picks up where the prior one left off
- Mutually beneficial partnerships with third-parties
- Self service capabilities

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How do we keep all of the change together?
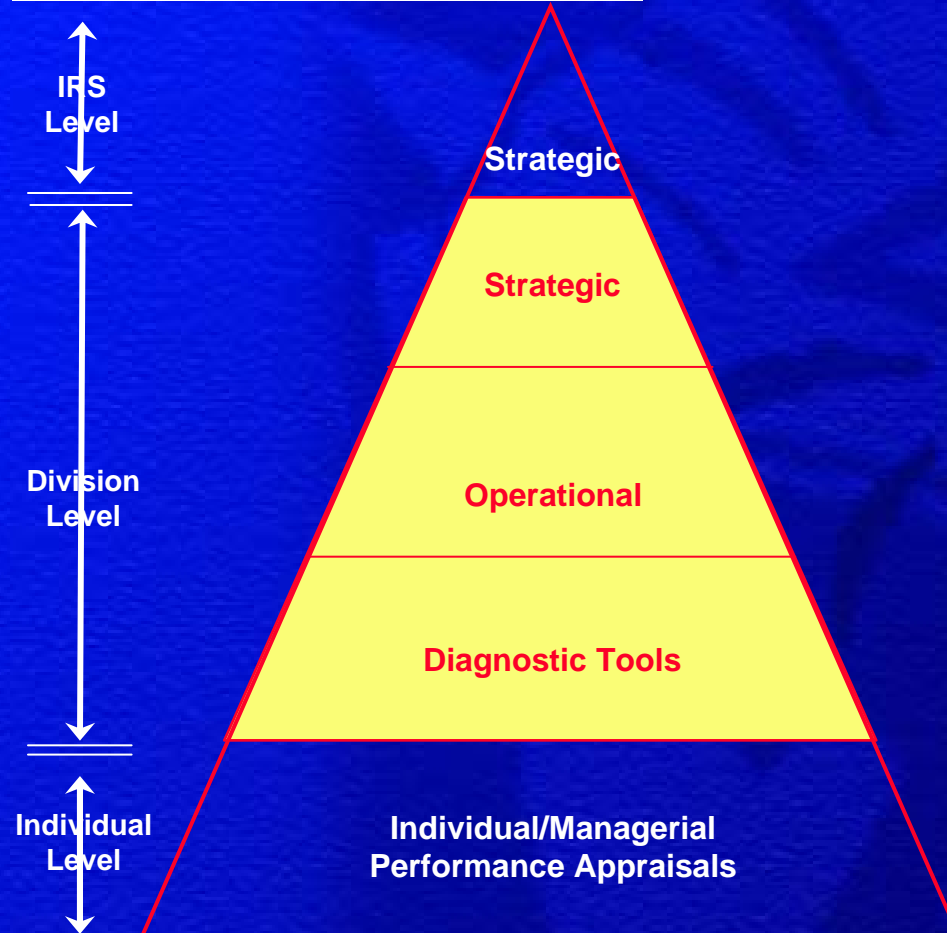
Strategic Planning
and
Balanced Measures

IRS's SP&B Cycle Develops Program Plans and $ along with Balanced Measures and Organizational Performance Targets, and Reviews Against Them

Develop measures & targets at the same time as strategies and programs.

Performance Plan & Bu get Justification Phase

Business Planning Phase

Program Planning Phase

Commissioner's Guida hase

Performance Management Phase

Prepare/Update Performance Plan, OMB Budget & Congressional Justification

Develop Strategy & Program Plan

Develop Business & Resource Allocation Plans

Commissioner's Planning Guidance Conference

Strategic Planning & Budgeting Cycle

Execute & Review Strategy, Program & Budget

Conduct Strategic Assessment

Issue guidance calling for plans to achieve IRS goals, learning the lessons of previous results

Review/discuss whether performance targets and IRS goals have been achieved.

Strategic Assessment Phase

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Balanced Measures and the Management Hierarchy

Measures and the Management Hierarchy

IRS Level

Division Level

Individual Level

Strategic

Strategic

Operational

Diagnostic Tools

Individual/Managerial Performance Appraisals

Objectives

- Given the strategies, measure the effectiveness of execution of particular aspects of the organization

- Help identify the underlying factors that affect changes in performance measures

- Assess how organizational measures relate to individual/managerial performance appraisals

Examples

- Business Results:
  - Quality
  - Quantity
- Customer Satisfaction
- Employee Satisfaction

- Not measures
- Process tools
- Reference guide defines how to use

- Critical job elements for employees
- Commitments for executives

Balance Is Important

Customer Satisfaction

• What is the general level of customer satisfaction in specific IRS transactions?

• What are taxpayers perceptions and expectations of the IRS?

Employee Satisfaction

• What is the general level of employee satisfaction?

• How do employees perceive the effectiveness of different levels of management?

• Are we providing the right working environment to enable employees to deliver results and customer service
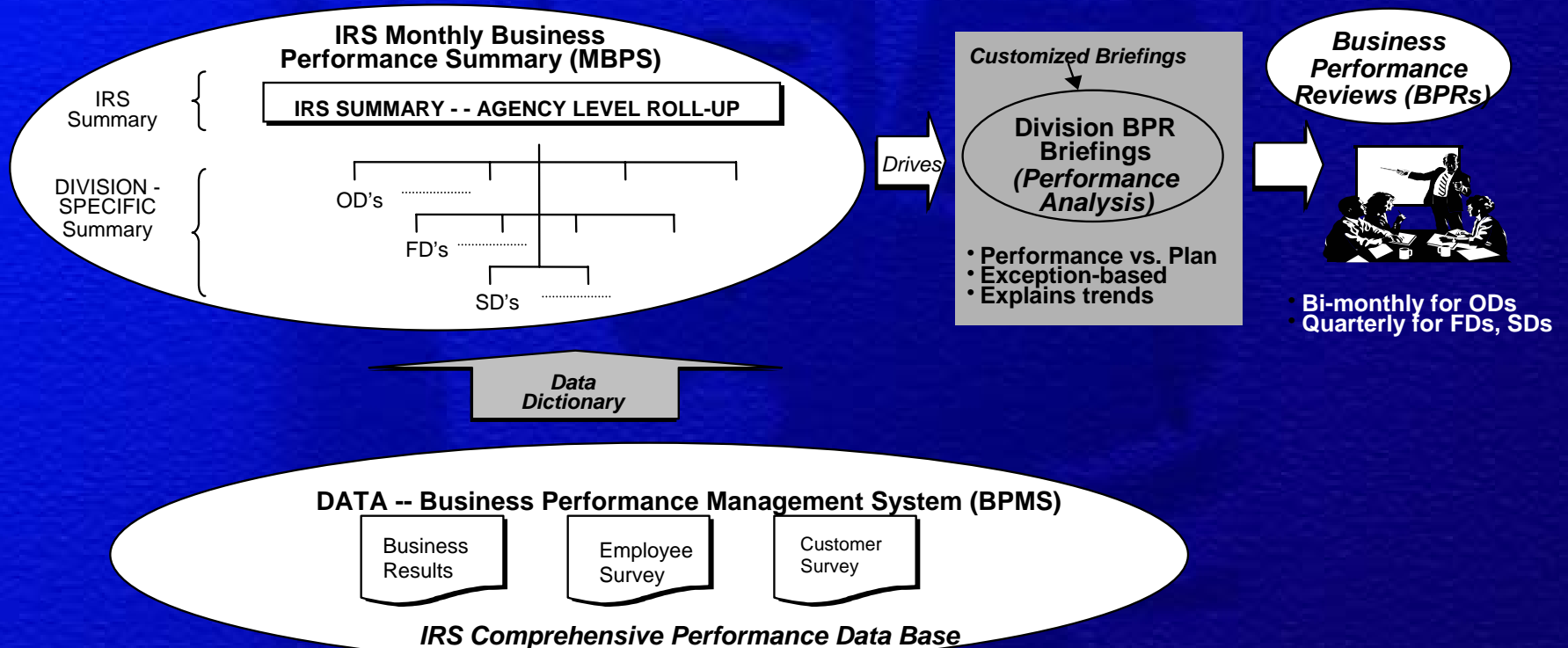
Business Results

• Quality
  • Did we assess/collect the proper tax?
  • Did we provide quality customer service?
• Quantity
  • Did we efficiently manage against the plan given the resources??

Key Principles
• Balance at all levels of the organization
• Simple
• Transparent
• Easy to Communicate

Business Performance Review System (BPRS) Closes the Loop of Accountability

Relationship of BPRS Elements --
Data, Monthly Reports, Analysis/Briefings, and Reviews

IRS Monthly Business Performance Summary (MBPS)

IRS Summary

DIVISION - SPECIFIC Summary

IRS SUMMARY - - AGENCY LEVEL ROLL-UP

OD's

FD's

SD's

Drives

Customized Briefings

Division BPR Briefings *(Performance Analysis)*

- **Performance vs. Plan**
- **Exception-based**
- **Explains trends**

Business Performance Reviews (BPRs)

- **Bi-monthly for ODs**
- **Quarterly for FDs, SDs**

Data Dictionary

DATA -- Business Performance Management System (BPMS)

Business Results

Employee Survey

Customer Survey

IRS Comprehensive Performance Data Base

Tomorrow…The Challenges

- Use of Balanced Measures at Appropriate Levels of the Organization

- Engaging Front-Line Managers and Employees in Leveraging Changes to affect Organizational Performance

- Reengineering Current Business Processes and Practices, e.g., Collection/Examination

- Technology Upgrades

- Comprehensive Compensation Packages

The End